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STATE FOR INL/AEE (BUHLER), INL/C (SILENSKY), SCA/CEN (O'MARA)

SIPDIS

E.O. 12958: N/A

TAGS: [SNAR](#) [EFIN](#) [SOCI](#) [KCOR](#) [KCRM](#) [KZ](#)

SUBJECT: KAZAKHSTAN COMPLETES PROPERTY LEGALIZATION CAMPAIGN

Ref: A) 05 ALMATY 4353 B) 06 ASTANA 689 C) 06 ALMATY 1437 D) ASTANA

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¶1. Summary: The property legalization process, essentially an amnesty campaign, concluded on August 1 and earned approximately 59.64 billion tenge (\$488.8 million) for the Government of Kazakhstan. This campaign was aimed to finally register the rightful owners of property that changed hands during the murky privatization deals of the 1990s. The next step will be to develop new methods of financial monitoring. According to the Procurator General's Office, these new methods are included in the anti-money laundering (AML) and counter-terrorism financing law which is currently stalled in the Mazhilis (lower house of parliament). The adoption of the legislation was delayed three times because of the ongoing legalization, but the parliament is now free to move forward and the legislation could be enacted by the end of the year. End summary.

¶2. The GOK announced on August 2 that it had concluded the property legalization process. According to an official press release, the total amount of property legalized was worth 844 billion tenge (about \$6.9 billion). Of the legalized assets, cash accounted for 63.7% or 538.4 billion tenge (\$4.3 billion). About 99% of cash was legalized by individuals.

¶3. According to the Head of the Tax Committee of the Ministry of Finance, 29.5 billion tenge worth of securities (about \$236 million), 11.2 billion tenge worth of agricultural equipment (\$89.6 million), 7.2 billion tenge worth of foreign real estate (\$57.6 million), and 5.1 billion tenge worth of vehicles (\$40.8 million) were legalized. In addition, nearly 1.5 million pieces of real estate valued at 236.2 billion tenge (about \$1.9 billion) were legalized, including more than 1 million residential and nearly half a million non-residential buildings. In total the treasury has received 59.64 billion tenge (\$488.8 million) in fees during the process.

¶4. The legalization process (and the delay of AML legislation) began with the enactment of the Property Legalization Law in July 2006. Assets obtained since national independence are often assumed to have been acquired illegally during privatization. The law was introduced to legitimize a wide range of property and assets, including real property, capital assets, movable property, and securities. The law permitted owners to register assets and pay a fee of 10% of the value of the property, as determined by the owner. Registration was approved by the Regional Property Legalization Commission, which was established under the local executive authorities of each region. Producers of agricultural equipment, owners of rural property, owners of residential real estate who paid property tax before January 1, 2006, and tax-exempt owners of real estate were exempt from the 10% fee. The amendments also provided an amnesty for public officers who legalize their assets within the property amnesty campaign.

¶5. Extension of the property legalization process delayed the enactment of AML legislation, because, once passed, the AML law will make attempts to register previously unrecorded assets as prima facie evidence that some type of financial malfeasance took place.

¶6. The AML draft legislation was originally introduced to the Mazhilis (lower house) in September 2005 but was immediately stalled. With conclusion of legalization campaign on August 1, Senior Official of the General Procurator's Office Andrey Kravchenko announced that the basic AML law would be adopted by the end of the year. This law will introduce new methods of financial monitoring that comply with international standards. The new law will also establish regulations to strengthen AML activities and create the Kazakhstani Financial Intelligence Unit (FIU).

¶7. The draft contains requirements for financial monitoring agencies to submit information to the FIU. The draft lists the types of transactions that must be reported to the FIU. For example, securities and real estate transactions of more than \$100,000 and casino winnings of more than \$3,000. Suspicious transactions less than the minimum may also need to be reported to the FIU.

¶8. Comment: GOK efforts to enact AML legislation by the end of the year is a welcome step forward. The law is expected to introduce recognized methods, which will allow the GOK to better monitor suspicious transactions and large cash flows. End comment.

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